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IN THE

Supreme Court of the United States

October Term, 1946
No. 982.

THE PURE OIL COMPANY,

Petitioner.

vs.

PETROLITE CORPORATION, LTD.,

Respondent.

Brief of Respondent in Opposition to Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Fifth Circuit.

Opinions Below.

The opinion of the District Court is reported in 68 F. Supp. 851 (S. D. Tex., 1945). The opinion of the Circuit Court of Appeals is reported in 158 F. (2d) 503 (C. C. A. 5, 1946).

Questions Presented.

Certiorari is sought to review four questions propounded in the Petition. See *Rev. Rules of Sup. Ct.* 38(2). None of these questions was decided in either the District Court or the Circuit Court of Appeals and none of them is involved in the case.

On the contrary, the Petition brings to the attention of the Supreme Court a case resting solely upon well estab-

lished principles of property and contract law concerning the title to certain personal property and the effect of an agreement to enter into an agreement for the sale of such property. While the matter is presented as a question of patent law, there is and can be no issue respecting patents or the use thereof, whether expired or unexpired, since there is no license agreement in effect between the parties, and there is no controversy in the case concerning infringement of patents.

Certain inaccuracies and omissions in the facts as stated in the Petition will be rectified in the course of the following statement.

Reasons for Denying the Writ.

1. There Is Involved No Important Question of Federal Law Which Should be Decided by the Supreme Court, But Only Questions of Fundamental Contract and Property Law Correctly Decided by the Courts Below.

It is alleged in the Second Amended Complaint [R. 26, 27] that Respondent, Petrolite Corporation, Ltd., had licensed Petitioner, The Pure Oil Company, to use its patented processes for the dehydration and desalting of petroleum on a royalty basis under a License Agreement, and had also leased to Petitioner, without separate consideration, certain specially designed equipment for the purpose of employing such patented processes in the treatment of crude petroleum oil [R. 42-47]. For purposes of its own, Petitioner thereafter elected to terminate these License and Lease Agreements, effective on May 1, 1944, and in its own words, they were thereupon "of no further force or effect" [R. 30].

As a result, Petitioner had no right to continued use or possession of the equipment, and as provided in the Lease Agreement, it was then bound "to return to Lessor the equipment leased hereunder in good and operative condition, the results of ordinary careful use excepted" [R. 45].

Petitioner relied, however, upon this further provision of the Lease Agreement:

> "Lessee shall have the right at any time prior to the termination hereof, *to purchase said equipment and continue to operate same, subject to the terms of a sales and purchase agreement to be entered into between the parties hereto,* by paying to Lessor a sum equal to the cost of new equipment of similar grade and construction, f.o.b. Houston, Texas, less ten per cent (10%) per year depreciation during the time said equipment has been in existence." [R. 45—emphasis supplied.]

A few days prior to expiration of the License and Loan Agreements, Petitioner gave notice to Respondent that it was exercising this "option" to purchase the equipment and tendered the alleged depreciated cost in payment therefor [R. 30, 31]. It rejected, however, a sales and purchase agreement tendered by Respondent [R. 32], and no such agreement has ever been entered into by the parties [R. 34, 35], although the foregoing provision clearly required such agreement before any purchase could be effected [R. 45].

Disregarding such requirement, Petitioner instituted this action praying a declaratory judgment that it had the right

to purchase the equipment at its depreciated cost, without any agreement relating to such purchase or to subsequent operation of such equipment [R. 34].

Petitioner's original Complaint was replaced by a First Amended Complaint, which was itself amended. Respondent's Motion to Dismiss for failure to state a claim upon which relief could be granted was thereafter sustained. Petitioner then filed a Second Amended Complaint, to which a Motion to Dismiss was likewise sustained by the District Court. The Circuit Court of Appeals affirmed the judgment of the District Court and rehearing was denied.

The decisions below [R. 58, 59] held that Petitioner's right to purchase the equipment was not absolute, but that by the terms of the foregoing provision, it was dependent upon the prior execution of a sales and purchase agreement, which was to govern such purchase and the continued operation of the equipment, and that as no such agreement had been alleged and, on the contrary, was admittedly never made, Petitioner was not entitled to a declaration that it had title to the equipment. Since the so-called "option" was merely an agreement to enter into an agreement, it had no legal effect.

It is apparent, therefore, that the Petition presents no important question of federal law and that on the contrary, the case was correctly decided solely by the application of fundamental principles of local state law. Were it asserted here that the state law was not properly applied, such would not be ground for certiorari. *Ex Parte Woods*, 143 U. S. 202, 36 L. Ed. 125, 12 Sup. Ct. 417 (1892).

2. There Is No Question Whatever Respecting Expired Patents.

The Petition, however, is predicated upon the hypothesis that some requirement as to payment of royalties under expired patents is involved. No patent question is possible. Neither party is suing for patent infringement, there is no license agreement in effect between them, and there has been and is no attempt to enforce patent rights of any kind. The only controversy in the case is which party has title to and the resultant right to possession of the equipment leased by Respondent to Petitioner.

There is no question of royalties on expired patents under the terminated License Agreement [R. 36-42], which provided for the payment of royalties [R. 38] at a specified rate per barrel of treated oil "subjected to treatment . . . under Licensor's Patents or any one or more thereof."

The Second Amended Complaint does not allege that Petitioner paid, or that Respondent attempted to collect, during the continuance of such License Agreement, any royalty at any time under any of the patents after they expired, nor is there any allegation that either of the parties interpreted such agreement to require payment of royalties under any expired patent. Nor, under *Scott Paper Co. v. Marcalus Mfg. Co., Inc., et al.*, 326 U. S. 249, 90 L. Ed. Adv. Op. 88, 66 Sup. Ct. 101 (1945), could the agreement be interpreted to obligate such payment. Cf. Ellis, *Patent Assignments and Licenses* (2d Ed. 1943), Sec. 557.

But Petitioner maintains that some federal question has arisen out of a supposed requirement by Respondent that Petitioner agree to pay royalties under expired patents

pursuant to the tendered sales and purchase agreement which was not accepted. This position is wholly untenable (a) because no such facts are alleged in the pleadings, and (b) because they would be irrelevant in any event.

(a) It Is Apparent From the Record That the Tendered Sales Agreement Did Not Violate Any Rule of Patent or Other Law.

The record contains no copy of the proffered agreement, and there are no allegations of fact in support of Petitioner's conclusion that such agreement required the payment of royalties on expired patents. It is alleged only that the agreement provided for use of the purchased equipment subject to the payment of royalties under the License Agreement of 1930, and that of the patents listed therein, a large number had expired at the time the sales agreement was tendered [R. 32, 33]. As noted above, however, the License Agreement royalty was for the use of "any one or more" of Licensor's Patents, and the pleadings *admit* that some of the patents had not expired. In addition, "Licensor's Patents" were defined by the License Agreement [R. 37] to include patents issued subsequent to 1930 on applications then pending and on later improvements, and these were in existence at the time of tender, as well as the unexpired patents listed in the License Agreement. Moreover, the License Agreement was extended in 1936 to include the electrical desalting of petroleum oils [R. 26-28], and Petitioner's pleading shows that nearly all of the equipment is employed in practicing desalting, rather than dehydration, an invention made long after 1930 [R. 15, 47].

Thus it is clear from the record that the License Agreement, pleaded in *haec verba* [R. 36-42], could not

reasonably be construed as requiring royalties on expired patents, which are not patents at all, and there is no allegation that Respondent ever attempted to collect such royalties thereunder. It is equally clear that the tendered sales agreement, which was to implement the License Agreement, contained no such requirement.

While the facts are apparent from the record, Respondent further emphasizes that *it does not collect or attempt to collect royalties on expired patents and has never done so, and that it did not and does not interpret the tendered but unexecuted sales agreement as requiring such royalties.* There is, therefore, no controversy between the parties concerning the right to collect royalties on expired patents which could serve as the legal basis for a declaratory judgment. *Federal Declaratory Judgment Act* (28 U.S.C. Sec. 400); *Markham v. Gorder*, 150 F. (2d) 894 (C.C.A. 8, 1945); *Larson v. General Motors Corporation*, 134 F. (2d) 450 (C.C.A. 2, 1943).

It was also argued that the proposed agreement was unreasonable because of an option therein reserved to Respondent for repurchase of the equipment. The record shows, however, that the parties always intended that Respondent's equipment, whether leased or sold, should be operated only in connection with the use of its patented processes (Lease Agreement, Recitals and Secs. First, Third, Fourth, Fifth and Seventh; [R. 42-46]. It was, therefore, both natural and reasonable that Respondent should tender an agreement calling for use of the equipment under the License Agreement, with an option to repurchase the same upon termination of such License Agreement. In insisting upon such sales agreement, it was simply requiring observance of the terms and spirit of its agreements with Petitioner.

Petitioner's own pleadings, therefore, affirmatively establish the propriety and legality of the agreement tendered by Respondent. The document violated no law, federal or otherwise, and the "important federal question" purportedly raised by the Petition does not even exist.

(b) Even if the Tendered Agreement Had Been Illegal or Arbitrary, or Had Petitioner Effectively Pleaded the Same, However Falsely, It Would Still Have No Bearing on This Case.

The proposed sales agreement is not before the Court, for it was rejected by Petitioner [R. 32]. Respondent is not seeking to enforce the provisions of the License Agreement or of the Lease Agreement, for they have been terminated by Petitioner [R. 30].

Petitioner's argument that it acquired title or the right to title to the equipment by reason of Respondent's tender of an assertedly illegal agreement is founded upon a theory of waiver of conditions upon rights. Under the Lease Agreement [R. 45], Petitioner's rights depended upon an agreement, which never existed, concerning the purchase and continued operation of the equipment; on the contrary, there was only an agreement to enter into such agreement, to which "it is impossible for the law to affix any obligation." 1 *Williston on Contracts* (Rev. ed), Sec. 45. Thus Petitioner had and could have no right whatever to the equipment, and any question of conditions on such right and the waiver of such conditions is wholly foreign to the case. In the words of the Courts below:

> "The fact that Defendant has tendered Plaintiff a form of sales and purchase agreement, to the provisions of which Plaintiff has not agreed, and the fact

that the parties may never agree to a sales and purchase agreement, does not give Plaintiff title or the right to take title to the equipment" [R. 23, 59].

Moreover, the Supreme Court *has never held* that a misuse of patents works a *forfeiture* or *transfer of title* to physical property. Cf. *Hartford-Empire Company, et al. v. United States,* 323 U. S. 386, 89 L. Ed. 322, 65 Sup. Ct. 373 (1945).

3. The Decisions of the Lower Courts Are Not In Conflict With Applicable Decisions of the Supreme Court.

This case does not even remotely resemble *Scott Paper Company v. Marcalus Manufacturing Company, Inc., et al.,* 326 U. S. 249, 90 L. Ed. Adv. Op. 88, 66 Sup. Ct. 131 (1945), where the Court held that a defendant could not be held liable for infringement of a patent which was invalid because anticipated by an expired patent, even though the defendant was the assignor of the patent in suit. In the course of its opinion the Court stated that the patent laws do not contemplate that anyone, by contract or any form of private arrangement, may withhold from the public the use of an invention covered by an expired patent.

In this case, on the other hand, it has been shown that neither the License Agreement nor the tendered sales agreement could possibly be construed as requiring royalties on or as otherwise extending expired patents. Respondent is not seeking to enforce any patent, expired or unexpired. Petitioner brought the action for a declaration that it has acquired title or the right to acquire title to certain personal property. As previously demonstrated, no patents or patent rights are in any way involved, Re-

spondent has been guilty of no illegal practice respecting patents or otherwise ,and no such facts have been alleged.

Even in the event, however, that Respondent had committed the most flagrant abuses of the patent laws or of any other laws of the United States, such conduct would not justify a confiscation of its personal property by Petitioner. See *Hartford-Empire Company, et al. v. United States,* 323 U. S. 386, 89 L. Ed. 322, 65 Sup. Ct. (1945).

In *Sola Electric Company v. Jefferson Electric Company,* 317 U. S. 173, 87 L. Ed. 165, 63 Sup. Ct. 172 (1942), a licensee under an existing license agreement between the parties was held entitled to a declaratory judgment that certain price fixing provisions of the agreement were illegal. In the instant case there is no license agreement between the parties, and the Courts below, contrary to Petitioner's assertion, gave effect to no provision of any agreement between the parties, whether legal or illegal.

4. There Is No Question as to Undue Limitation of the Federal Declaratory Judgment Act.

Though Petitioner did not pray the declaration of any relief concerning any alleged right to possession of the equipment [R. 34], perhaps realizing that it must ultimately stand or fall upon its attempt to require Respondent to part with title to its equipment without any agreement respecting its purchase and continued operation, it is implicit in the decisions of both the District Court and the Circuit Court of Appeals that Petitioner had no right to retain possession of Respondent's equipment unless and until such agreement be entered into. In fact, both Courts expressly said that Petitioner's "possession of the equip-

ment is under and by virtue of the Agreements" [R. 23, 59].

The decision of the Courts below is plainly correct. Apart from the implied-in-law duty of a bailee to return the thing bailed upon termination of the bailment and the fundamental precept that right to possession follows title, in this case Petitioner had the following express obligation under the Lease Agreement:

> "Lessee agrees upon termination hereof howsoever, to return to Lessor the equipment leased hereunder in good and operative condition, the results of ordinary careful use excepted . . ." [Lease Agreement, Sec, Fifth; R. 45].

An exception to this obligation would arise only upon the execution of a sales and purchase agreement prescribing the terms of purchase and continued operation of the equipment. When Petitioner itself terminated the Lease Agreement [R. 30], no sales and purchase agreement having been entered into, it had no right to possession of the equipment on any ground, as the District Court, upon an examination of the pleadings, correctly decided. This conclusion was affirmed by the Circuit Court of Appeals whose opinion, read in context, merely restated the fundamental precepts previously discussed, that under the provision of the Lease Agreement in controversy, title and the resultant right to possession of the equipment would pass to Petitioner only on the execution of a sales and purchase agreement, and that the courts could not impose on either party any obligation to enter into such an agreement.

Whatever the Circuit Court of Appeals may have meant by its incidental allusion to estoppel, it is obvious instanter

that Respondent is in no way estopped to deny title to or right to possession of the equipment. While definitions vary, estoppel must always include the elements of reliance upon a promise or deed by an innocent party to his detriment. See 31 *C. J. S.* (Estoppel), Sec. 1. No such elements exist or are alleged in this case, however, because as apparent from the record, Respondent has at all times vigorously maintained its ownership and right to possession except under an arrangement which was fair, legal and reasonable, and at all times contemplated by the parties and in strict conformity with their agreements. Petitioner has not relied upon or been misled by a representation to the contrary. It is a general rule, moreover, that failure specially to plead estoppel operates as a waiver thereof. 31 *C. J. S.* (Estoppel), Sec. 153 (c).

Conclusion.

1. None of the four questions propounded by the Petition is involved in the case.

2. There is presented no important question of federal law which should be decided by the Supreme Court.

3. The only questions are of fundamental property and contract law which have been correctly determined.

4. As there is no attempt to enforce any patent or contract rights, there is no conflict with the Supreme Court decisions cited by Petitioner.

5. Since no facts were stated upon which any relief could be granted, dismissal of the action did not impose a limitation upon the Declaratory Judgment Act.

6. Having failed in the District Court, after thrice amending its Complaint, to plead a claim upon which relief

could be granted, and its position having been rejected on hearing and rehearing in the Circuit Court of Appeals, Petitioner is seeking, *in extremis,* to raise an issue which does not exist.

Wherefore, Respondent submits that this case is not a proper one for review by certiorari by the Supreme Court of the United States and that the Petition for Writ of Certiorari should be denied.

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